

Message Text

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60

ACTION NEA-10

INFO OCT-01 ISO-00 PM-03 NSC-05 SP-02 SS-15 CIAE-00 INR-07

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FM AMEMBASSY ALGIERS

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E.O. 11652: N/A

TAGS: PFOR, EGEN, AG, US

SUBJECT: FOLLOW-UP ON BILATERAL ISSUES RAISED DURING UNDER-
SECRETARY ROBINSON'S VISIT TO ALGIERS

REF: ALGIERS 1642

1. REFTEL REPORTS JULY 21 DISCUSSIONS BETWEEN ALGERIAN
MINISTER OF INDUSTRY AND ENERGY ABDESSELAM AND UNDER
SECRETARY ROBINSON CONCERNING CONSTRUCTION OF LNG PLANT AT
ARZEW BY CHEMICO, SUBSIDIARY OF AEROJET GENERAL, WHICH IN
TURN IS SUBSIDIARY GENERAL TIRE. AS FOLLOW-UP, AMBASSADOR
MET HERMAN STILGENBAUER, VP OF OPERATIONS FOR CHEMICO,
ON JULY 24 TO HEAR CHEMICO'S SIDE OF STORY.

2. STILGENBAUER CONFIRMED CHEMICO SEEKING FUNDAMENTAL
RENEGOTIATION OF CONTRACT WITH ALGERIANS. ORIGINAL
CONTRACT WAS FOR LUMP SUM OF \$350 MILLION WITH NO
ESCALATION CLAUSE. COMPANY NOW SEEKING ADDITIONAL
\$100 MILLION, OR NEARLY 30 PERCENT INCREASE OVER ORIGINAL
CONTRACT PRICE. ACCORDING STILGENBAUER, BUDGET OVERRUNS
FOR PROJECT HAVE BEEN VAST, AND VENTURE FROM CHEMICO'S
POINT OF VIEW NOW FAR FROM PROFITABLE. CHEMICO HAS BEEN
SEEKING RENEGOTIATE CONTRACT FOR SOME MONTHS. THOUGH
CHEMICO COST OVERRUN SAID TO BE \$100 MILLION, STILGENBAUER
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INTIMATED THAT COMPANY WILLING CUT ITS OWN PROFIT TO REACH

AGREEMENT WITH ALGERIANS.

3. STILGENBAUER ALSO NOTED THAT ALGERIANS HAD HIRED CONSULTING FIRM OF IN-O-VEN, APPARENTLY LARGELY STAFFED BY FORMER SHELL EMPLOYEES, TO EVALUATE CHEMICO'S CLAIMS WHICH BASED ON SIGNIFICANTLY HIGHER COSTS OF US EQUIPMENT, DELAYED DELIVERY SCHEDULES AND OTHER UNFORESEEN REQUIREMENTS. CONSULTANT'S PRELIMINARY REPORT DUE EARLY AUGUST. EMBASSY HAS ALSO HEARD THAT IN-O-VEN'S PARTICIPATION IN AT THE INSISTANCE OF EXIMBANK, WHICH IS REQUIRING AN INDEPENDENT ASSESSMENT BEFORE PROCEEDING WITH FURTHER CREDIT APPLICATIONS.

4. CHEMICO REP STRESSED COMPANY MAKING MAXIMUM EFFORT ON PROJECT AND EVEN TAKING UNUSUAL STEP OF LOCATING THREE COMPANY VICE PRESIDENTS IN ALGERIA. COMPANY CLEARLY FEELS REPUTATION ON THE LINE WITH THIS PROJECT.

5. AMBASSADOR STRESSED TO STILGENBAUER HIS CONCERN RE SUCCESS OF US COMPANIES IN ALGERIA AND THE IMPORTANCE OF THIS SUCCESS TO OVERALL BILATERAL RELATIONS. SIGNIFICANT INVOLVEMENT OF EXIMBANK MADE PROJECT EVEN MORE IMPORTANT. AMBASSADOR ASKED THAT EMBASSY BE KEPT INFORMED OF TALKS WITH ALGERIANS.

6. AMBASSADOR LATER LEARNED FROM INDEPENDENT SOURCE THAT ABDESSELAM QTE FURIOUS UNQTE WITH CHEMICO AND NUMBER OF VIOLENT VERBAL EXCHANGES HAD TAKEN PLACE BETWEEN HIM AND CHEMICO REPS. SOURCE ATTRIBUTED PART OF CHEMICO'S PRESENT PROBLEMS TO REORGANIZATION WITHIN CHEMICO AND AEROJET.

7. COMMENT: THIS PROJECT IS ONE OF THE LARGEST BEING UNDERTAKEN BY AMERICAN FIRMS IN ALGERIA. IT IS EXTREMELY IMPORTANT TO ALGERIAN DEVELOPMENT PLANS AND TO EL PASO GAS, WHICH NOW BUILDING TANKERS TO TAKE LNG FROM ARZEW TERMINAL. IF PROJECT GOES SOUR, IT WILL HAVE SERIOUS UNFORTUNATE IMPACT NOT ONLY ON USG-GOA RELATIONS, BUT ALSO ON EFFORTS AMERICAN BUSINESS HERE. AT THIS POINT DO NOT HAVE DETAILED ALGERIAN VIEWS ON SITUATION (AM SEEKING APPOINTMENT WITH GHOZALI OF SONATRACH TO DISCUSS) AND AM LIMITED OFFICIAL USE

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NOT SURE WHAT USG CAN DO HERE UNTIL WE DO HAVE THEM. BELIEVE USEFUL FIRST STEP WOULD BE FOR SENIOR DEPARTMENTAL OFFICIAL DISCUSS MATTER WITH SOMEONE AT AEROJET OR GENERAL TIRE TO IMPRESS ON THEM IMPORTANCE OF PROJECT FOR CONTINUED SUCCESS OUR VERY VALUABLE COMMERCIAL RELATIONS WITH THIS COUNTRY, AND TO GET THEIR VIEWS. IF EXIM ALREADY APPRISED OF SITUATION, WOULD ALSO BE USEFUL HAVE THEIR VIEWS. PARKER

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